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THE IMPACT OF THE ECONOMIC CRISIS ON TAX ADMINISTRATIONS IN AFRICAN COUNTRIES: (The Case of Nigeria)[1/]

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1/ A Country Paper presented by the representative of Nigeria at the Technical Conference

Introduction

A crisis can be defined as a problematic situation which disrupts the achievement of personal, group, corporate or national goals. It is a deciding moment, a turning point, a time of great danger or suspense. simply put, a crisis is a deviation from what is desirable. From this definition, one can take economic crisis to mean a deviation from what is desirable in the production, distribution and consumption of goods and services in a given economy.

Economic crisis or problems arise because in every community or country different people have different needs and therefore desire different goods or services while there do not exist enough resources to satisfy all these wants.

Economic problems also exist because of the need to choose between alternative methods of doing the same thing or rendering the same service. Other problems come from unemployment which, if it lasts long where a large number of people is involved, may lead to social upheavals. The distribution of goods and services and problems of economic growth in the economy are issues which cause crises if not properly handled.

Definitely, economic problems or crises will differ from one country to another, since there are differences in geography, people and socio-economic and political environments under which these countries operate. Even in the same country, they will differ from one period of time to another. For instance, what economic problems the Nigerian economy faced in the sixties are, in terms of magnitude and complexities, nothing compared with what it is facing today. This introduction has sought to list basic economic problems which are common to most countries, be they African or otherwise, and at any point in time some may be more serious than others.

From the above, it can be seen that the topic of this paper presupposes that African countries are labouring under some forms of economic crises. If this assumption is accepted, then tax administrations in these countries are bound to be affected by such economic crises. This is bound to be so because, tax administrators are not an island unto themselves,

but are rather part and parcel of the economic and social environments under which they perform their work.

It is my intention in this paper to give what I consider to be the aims and purposes of tax administrations generally. Then I will proceed to examine how the economic crises in my country have given rise to the current structural adjustment of the economy called SAP, in popular palance, the pivot on which SAP revolves, the effects of it on our system of tax administration.

Finally I shall endeavour to proffer some measures for strengthening tax administrations during a period of economic crisis.

The Aims and Objectives of Tax Administration

The aims and purposes of tax administration can be summarised as follows:

(i) To collect the proper amount of taxes due by law and accounting for them.

(ii) To advise the responsible minister on tax policies and to implement the policies in those areas when required to do so.

(iii) To provide service to taxpayers.

(iv) To search for new and better ways of doing those things more economically, efficiently and effectively.

In order to achieve these aims and objectives tax administrators will strive to:

(a) ensure that people are fairly and equally treated under the law.

(b) inform, educate and advise the public of their rights and duties under the law as well as any changes in the tax legislations.

(c) encourage and promote mutual trust, co-operation and understanding between them and the taxpayers and their agents.

(d) pursue the collection of taxes which are properly due under the law that is, collect no more and no less than the taxpayer is supposed to pay.

(e) deter and detect tax evasion and avoidance as and when they are spotted.

(f) set clear objectives, allocate responsibility to staff for achieving them and monitor progress and results.

(g) finally devise policies that will guide the staff towards achieving the objectives and targets mapped out for them.

Under normal circumstances and bearing the above in mind, I believe tax administrators would collect the revenue collectible under the law, to help fund the government's work in such very important areas as health care, education and social services. Consequently, the performance of the tax administrators is of crucial interest not only to the government but to the taxpayers themselves.

Under Economic Crisis

When the economist wants to analyse a given situation he uses the expression, "all things being equal". This expression helps to isolate certain variables temporarily, in order to make progress in such an analysis. We all know that all things cannot be equal. We know also that things are not always normal. Since everything is in a state of flux, crisis and change are part and parcel of our personal, social, economic and national life.

There is no doubt that for over a decade or so African countries have been bedeviled with economic crisis.

Some of the economic crisis emanate from:

(i) Poverty leading to inability to feed and provide for the welfare of the citizenry.

(ii) Inability to manage resources fairly, economically and efficiently.

(iii) Unbridled consumption of foreign goods which must be paid for in hard currency.

(iv) Unemployment, primitivity and bad work attitude.

(v) Crushing foreign debts.

(vi) Lack of infrastructure and industrial capacity to generate both capital and consumer goods.

(vii) Absence of technological know-how which is very essential for any meaningful progress in all spheres of human endeavour etc.

Since economic crises hinge on distortions in the production, distribution and consumption of goods and services, they can have a tremendous impact on tax administration. Revenue collection is a function of economic activities, the tax base, tax rates and the quality and effectiveness of tax administration in any given economy. If the economy is healthy and booming, this will reflect in the taxes collected. The nature of economic crises found in the economy, will determine the nature of solution method to be adopted. This informs the reason for African countries adopting one form of structural adjustment programmes or the other that is, some are self-imposed while others are imposed by the International Monetary Fund. The aim is to see how best to turn the economy around, while looking inwards with a view to developing a sense of self-reliance which will, over time, lead to some measure of economic self-dependence.

The Nigerian Situation

The present administration in Nigeria will be mostly remembered for boldly tackling the country's economic crisis, which earlier administrations were shying away from, by its introduction of the structural adjustment programme (SAP). SAP is an economic as well as a social programme which aims at bringing structural changes in the economy thereby reducing or eliminating causes of structural deficiencies or distortions. The programme was anchored on the following economic policy objectives:

1. Realistic Exchange Rate for the Naira: There was need to find a realistic exchange rate for the country's currency in the face of other major world currencies. This led to the introduction of the two tier foreign exchange system in the country, which metamorphosed from SFEM to FEM.

2. Long-term External Debt: The debt burden was heavy and strangulating to the economy. There was need to commence negotiation with our external creditors for a rescheduling space. The country commissioned some agents to determine and collate actual genuine trade debts so as to eliminate or discard spuriousness.

3. Reduction of Dependence on Oil: Prior to the discovery of oil, the Nigerian economy was solidly built on revenue from palm products, cocoa groundnuts etc. The arrival of oil saw a wholesale neglect of these products which were the main stay of the economy. Nigerian's economy thus became a one product economy and could no longer withstand the vagaries of international oil politics. Consequently it became necessary to embark on promotion of export trade in the non-oil sector so as to reduce our dependence on oil income.

4. Privatization of Government owned Companies: It is a known fact that most government owned companies do not perform comparably with their privately owned counterparts. Like overpampere babies, they never grow to maturity. There are a source of wastage of taxpayers money. consequently, a programme of privatization was begun to turn these companies into some going concern by removing them out of the bureaucratic apron of the civil service.

5. Abolition of the Import Licence System: The era saw the discarding of the import license system which was a very big source of corruption and created clogs on the wheel of international trade. Most of the time licences were hawked around by middlemen who were not importers while the real importers never got these licences. The abolition of the system

was followed by dissolution of the marketing boards, abolition of the existing price control mechanism and the market was gradually released from regulation.

6. Control of Money Supply: The country's apex exercised a serious control on the money supply. A monetary policy was adopted with a view to mopping up excess liquidity within the economy. This was aimed at lowering the rate of inflation within the economy.

7. Removal of Petroleum Subsidies: All along the government has been subsidising consumption of products in the country. These were reduced in two steps and right now the desire of the government to remove that bit of the subsidy has been waived, due probably to the outcry of the public.

8. Agricultural & Rural Development Programme: SAP made agriculture a preferred sector. This has led to aggressive agricultural and rural development programmes, opening up new roads, rural electricity and more the rural to the already congested urban centres. SAP was a child of economic crisis which has been with us for so long. The birth of SAP has opened a new frontier in economic activities e.g. maintenance of equipments and tools which hitherto would have been replaced. Following in it's wake is a spirit for the development of maintenance culture.

Change in Tax Policy and System

The impact or effect of any change depends on what is changed. For instance, a structural change in the economy is bound to affect tax policy and the taxation system of that economy, otherwise distortions would continue to

surface. Taxation being a government tool in effecting fiscal measures cannot remain isolated in the bandwagon of the changes, taking place. The changes have taken place in the following areas:

Review of the Nigerian Tax System and Administration

As the structural adjustment fever spread, the government saw the need to review the country's tax system and administration to make it more responsive to the changes taking place in the economy. On 9th January, 1991 a ten man study group was mandated to review the tax system with a view to installing a system which would have the following essential features:

(i) The system must be fair and equitable.

(ii) Must be free of distortions to investment decisions.

(iii) Must encourage a fair allocation of savings between investment opportunities.

(iv) Must not kill incentive to work or for risk taking in business.

(v) The system should attract foreign investments or at least avoid capital flight to countries with lower taxes.

(vi) The system must discourage tax evasion and avoidance and the growth of underground economy and encourage voluntary compliance.

(vii) The system should reduce complexities for both the tax administrators and taxpayers.

The study group was given specific terms of reference and a time frame necessary and sufficient for it to achieve those objectives. The study group has since submitted its reports and government white paper has been drafted on its recommendations. In fact some of the recommendations of the body were incorporated in this year's budget, while the views of the government on the remaining issues are awaited.

Administrative and Structural Changes

In response to the economic crisis and prior to the setting up of the Study group, administrative and structural changes were put in place in our system of tax administration and tax policy. The effect of these changes is improved revenue collection despite the down-turn in the economy. The reason for the improvement is not far to discern. During the era of oil boom, revenue came to government like a fluke - a sort of windfall. The implication here is that sufficient or full attention was not paid to company taxes etc. The decline in oil revenue saw a return to these traditional sources of revenue which had been as it were, neglected. Since the decade, the Board of Inland Revenue has opened up new offices in most of the states of the Federation with a view to reaching a greater percentage of the taxpayers.

Legislative Changes

Taxation, generally speaking is a product of statute. In other words, the tax laws are the veritable tools for effective tax administration. Consequently the economic changes have necessitated the introduction of new tax legislations and the amendment of existing laws, bringing about new taxes and the plugging of known loop holes which encourage evasion. an example is the extension of withholding tax to all business transactions and payments for contracts, consultancy, professional and technical services. Since tax administration is not static, tax laws should be dynamic and flexible so as to respond to changes in the economy. Similarly earlier laws which are

considered obsolete for the contemporary needs of the society have also beem abrogated from the statute books.

Manpower Development

The job of tax administration is a specialised function which requires special training and skill. The training and skill are acquired both locally and overseas. As a result of the economic programmes embarked upon to revive the economy coupled with dwindling foreign exchange receipts, overseas training has almost ceased for nearly a decade. Local training chances have also reduced. There is no doubt that this has affected in no small measure the quality of the output of inspectors of taxes generally. When the economy was booming staff turnover in the Revenue Department was high. Today people stay because of inability to get something better elsewhere. No matter how one looks at it, the economic crisis has brought a mixed grill-blessing in some areas and inescapable hardship in others.

New Assessment Programme

The ultimate goal of a well formulated tax system and administration is voluntary compliance. A developing country such as Nigeria is dynamic and can be aptly described as a nation in a hurry. Similarly a tax system should reflect the socio-economic and political changes taking place in the environment in which it operates. In the fiscal year 1991, Nigeria introduced the self-assessment system to operate paripassu with the government system. The new system shifts the responsibility for arriving at the correct assessment figures from the Tax Department to the taxpayers themselves. Though the response of taxpayers is yet to be measured I believe it is a step in the right direction, and will further promote mutual trust between tax administrators and taxpayers.

Information and Taxpayer Education

All along our tax authority has embarked on taxpayer education on a continuing basis. You will agree with me that the taxpayer of today is becoming more sophisticated, using modern equipments which the tax office may even not afford. The enlightenment programme of today should be aimed at improving the image of tax office, reducing areas of conflict and misunderstanding between taxpayers, their agents and tax officials. Since the effects of the structural adjustments are biting hard on the generality of the people, the tax authority is careful in adopting persuasive rather than coercive approach in reaching taxpayers, so as to avoid unnecessary conflict.

The Use of Tax Clearance Certificate

The down-turn in the economy made revenue officials think of various ways of improving tax collection. Then the idea of the use of tax clearance certificate was born. This is a certificate issued by the Inland Revenue to show that a taxpayer has paid taxes due for the past three assessment years. The presentation of this certificate became a sine qua non for permission to transact business with government and its agencies as well as the organised private sector. Notwithstanding some abuses of the policy, this phenomenon has done much to bring a lot of taxpayers within the tax net. It is being reviewed from time to time.

Need for Computerisation

Part of the fall out of the economic crisis is a realisation of the need to cope with increased work load and the logistics of dealing with area offices located in almost all the states of the Federation, through computerisation of some of the operations of the Revenue Department. Serious efforts are being made in this direction through a World Bank assisted programme. As at now, quotations have been called for from computer hard and soft ware dealers; the

consultants have been shortlisted and the list has been referred to the World Bank which will take a final decision on the matter.

Tax Collection

The Board of Inland Revenue's aggregate tax collection is the barometer for measuring its success and efficiency. In this regard, the tax administration in the country has made an impressive outing. As stated earlier, oil revenue decline led to an overhauling of the tax collection machinery to include intelligence information gathering and exchange of such information for locating hibernating taxpayers. The use of tax clearance certificate, successful public enlightenment programme and stipulation of stiffer penalties for non-payment of taxes and late rendition of returns, worked together to improve the revenue collected. Consequently, the Revenue Board has continued to exceed its annual estimated revenues over the years while at the same time ensuring economy in the cost of collecting such revenue. A tabular chart showing the revenue collection from 1985 to 1989 is attached.

The above constitutes the main areas in which our tax policy and administration have been seriously affected and in which deliberate actions have been taken to ameliorate the impact. Taken all in all, I think it can be said without exaggeration that the situation has been impressively contended with.

One area I need to mention is the issue of tax evasion, and tax avoidance. While tax evasion or tax avoidance cannot be claimed to be a direct result of the economic crisis, one has some bearing on the other. A people subjected to severe deprivation due to harsh economic conditions can hardly be expected to comply voluntarily with tax requirements. On the other hand, taxation should be seen as an instrument of commitment, a symbol of loyalty towards one's society. In Nigeria income tax accounts for about 80% of government's revenue, despite low level of compliance and high level of evasion.

During a symposium held in Nigeria, there was a concensus that among self-employed persons in Nigeria, voluntary compliance is very low. Tax evasion is calculated to be over 50% compared with 14% in UK. However the position is being addressed squarely through the various measures already discussed which have been put in place.

One other area that calls for mention is a stable political environment. The need for political stability in African countries cannot be over-emphasized. For political stability is the bedrock of economic well-being. I have the fear that unless our political masters play well their part, the political wind of change blowing across the world now will compound the present economic crises across the continent. I hope our leaders cannot afford to toil with the destiny of our people. It is hoped therefore that they will choose the part of honour and give democracy a chance to develop.

Measures for Strengthening Tax Administrators During a Period of Economic Crisis

One will need an infallible crystal ball to foresee what such measures can be. This is more so, as economic crises differ from country to country or even within the same country both in magnitude and complexity. However, notwithstanding this, I think I can offer a few suggestions.

1. In my view the first important measure in strengthening tax administrators under a period of economic crisis is equipping them with the requisite knowledge and skill necessary to perform their duties efficiently no matter what the circumstances are. In other words, there is need to provide a congenial environment, adequate training facilities and reward incentives. If well equipped, they will be able to face the challenges of economic crisis by thinking out new ways and manner of solving new problems. Above all, those who exhibit initiative, drive, honesty and competence should be recognised and recommended for national awards.

2. There is need to operate a flexible taxation system. As mentioned earlier, since society is dynamic and eclectic, the tax system adopted, should be flexible so as to respond to changes in the society without undue delay. Unnecessary bottlenecks and delays can rob the government of a big chunk of revenue that should have been collected.

3. There is need to establish a sound planning, research and statistics department as an essential and integral part of a tax administration. The management of revenue boards do not fully appreciate the important job which this department can do

in the area of data collection, target setting and the monitoring of results. Outside consultants can be used in the setting up and training of the staff for this department, as and when necessary, where people with the relevant qualification and skill are not in the Department.

4. Modernisation of the revenue offices, simplification of tax forms, updating and codifying tax laws can form necessary strategies for strengthening tax administrators. Tax laws suffer amendments from year to year and failure to update these laws, creates confusion in the minds of users who have to grope through a maze of additions and deletions to know what the law is.

5. Tax administrators should be given the opportunity of being exposed to the use of the magic ward of the 20th century, the computer. The fear of loss of job should not discourage the need for computerising, if not all, some important areas of the activities of the Revenue Department to make for effectiveness.

6. Above all, African countries can exchange tax information amongst themselves so that tax administrators in one country can benefit from the experience of their counterparts in another. A forum, such as we have here today constitutes a useful avenue for such. Apart from exchange of information, I think it is possible to exchange tax personnel for a period ranging from six months to one year. This makes for sharing experiences as is practiced in multi-national corporations.

7. Finally, tax administrators should strive hard to improve both their personal image and that of their establishment. A good image can be a source of immense strength in itself when

facing economic crisis. Such an image can act as a social lubricant in the mutual relatively between the tax administrator and the taxpayer, particularly during period of economic crisis when tax payers are labouring under economic hardship and constraints, resulting from government measures.

Mr. Chairman, Ladies and Gentlemen, I think I should stop here to give you time to ruminate over the points. I would like to thank you all for the privilege of your listening to me. If the paper has not measured up to your expectation, please bear with me, for the period given to me to produce it was so short that I have chosen to discuss those issues which struck my mind.

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FEDERAL BOARD OF INLAND REVENUE
FIVE YEARS COLLECTION 1985-1989

TYPES OF TAXES	1985	1986	1987	1988	1989
SALES TAX	-	-	255,459	881,769	2,673,278
COMP. INC. TAX	1,004,305,429	1,109,325,373	111,840,764	1,369,389,134	1,624,292,759
BACK DUTY PEN	-	-	528	116	641,782
PETROL PROFIT TAX	6,719,631,464	4,899,456,300	12,186,459,053	12,590,711,976	23,835,584,097
CAPITAL GAIN TAX	1,978,324	1,396,825	6,825,807	6,846,516	12,822,724
COMP. SUPER TAX ARREARS	-	-	-	-	-
PERSONAL INCOME TAX	12,862,433	13,727,552	10,974,893	13,209,226	12,145,758
STAMP DUTIES	20,571,267	23,434,109	27,255,194	38,561,742	135,458,661
PER. INC. TAX ABUJA	2,230,712	1,045,462	1,970,951	3,267,565	3,174,397
OVERSEAS TRAVEL LEVY	33,249,480	31,682,930	-	-	-
COMPANIES PRE-OPERATION LEVY	3,626,279	3,345,132	1,581,902	2,453,400	2,697,397
NATIONAL ECON. RECOVERY FUND	-	256,186,783	23,155,363	1,670,029	428,472
GRAND TOTAL	7,798,455,388	6,340,600,466	12,371,319,914	14,026,991,473	25,629,919,325